

## Message Text

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ORIGIN EUR-12

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TO USMISSION NATO IMMEDIATE

C O N F I D E N T I A L STATE 015871

HOLD FOR OPENING OF BUSINESS

E.O. 11652: GDS

TAGS: NATO, OCON, AWACS, MILI

SUBJECT: NATO AEW AND C FINANCIAL DISCUSSIONS

REF: USNATO 267

THE FOLLOWING IS U.S.POSITION WHICH HAS BEEN REVIEWED  
BY SECDEF.

1. REFTEL CONTAINS SIGNIFICANT REVISIONS TO PREVIOUS  
COST-SHARING FORMULA FOR NATO AEW AND C ACQUISITION, AS A  
DEPARTURE POINT FOR FURTHER FINANCIAL DISCUSSIONS BY  
NATIONAL REPRESENTATIVES. IN OUR VIEW, PROPOSALS IN REFTEL,  
WHICH ACCOMMODATE CONFLICTING VIEWS OF MOST OTHER NATIONS  
BUT AT A UNILATERAL COST INCREASE TO THE U.S., ARE USEFUL  
BUT PREMATURE.

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2. OUR CONTINUING EFFORT SHOULD ADDRESS ACCOMMODATION OF  
THE PROGRAM TO AVAILABLE RESOURCES, IN ACCORDANCE WITH  
MINISTERIAL GUIDANCE FROM THE DEFENSE PLANNING COMMITTEE  
(DPC) MEETING OF JUNE 1976. AUTUMN 1976 DELIBERATIONS  
BY NATO MILITARY AUTHORITIES REAFFIRMED THAT AWACS IS THE  
DESIRED SOLUTION TO MILITARY DEFICIENCIES, AND DEFENSE

MINISTERS AGREED AT THE DECEMBER 1976 DPC TO REVIEW FINANCIAL ARRANGEMENTS, WHEN DEVELOPED.

3. INITIAL NATIONAL POSITIONS ON FINANCING INDICATE A POTENTIAL SHORTFALL OF DOLS 300 MILLION TO DOLS 500 MILLION, AGAINST THE CURRENTLY DEFINED DOLS 2.48 BILLION ACQUISTON PROGRAM. ACCOMMODATION OF THIS PROJECTED SHORTFALL SHOULD BE SOUGHT BY ADDRESSING ALL ALTERNATIVES AVAILABLE. IN ADDITION TO THOSE SUGGESTED BY ASYG LABERGE (QUOTE COMPROMISE N FORMULA UNQUOTE), ALTERNATIVES INCLUDE OPTIONS TO LOWER INITIAL AIRCRAFT ACQUISITION COSTS (WHILE RETAINING ESSENTIAL FORCE CAPABILITIES), AND TO REDUCE PROGRAM COST INEFFICIENCIES. TENTATIVE AGREEMENTS IN THESE AREAS COULD THEN BE ACCOMPANIED BY FURTHER ADJUSTMENTS IN NATIONAL SHARES, IF STILL NECESSARY. ALL SUCH DISCUSSIONS WILL, OF COURSE, REMAIN SUBJECT TO NATIONAL MINISTERIAL APPROVALS.

4. IN RESPONSE TO OTHER SPECIFIC SUGGESTIONS IN REFTEL:

A. CONCUR IN PARAS 5(B) AND 5(E) AS BASIS FOR DISCUSSION.

B. PARA 5 (D) DESERVES FURTHER CONSIDERATION AS A WAY OF INTEGRATING APPROPRIATE ASPECTS OF THE AEW AND C PROGRAM INTO THE REGULAR CATEGORICAL BUDGETARY SYSTEM OF THE ALLIANCE; HOWEVER, CONCURRENCE OF NATIONS WILL BE NEEDED IN VIEW OF THE EXTRA FUNDING REQUIREMENTS (DOLS 160 MILLION). THE U.S. WOULD ALSO REQUIRE A CONFIDENTIAL

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PROPORTIONATE INCREASE IN THE U.S. SPECIAL PROGRAM SO THAT OUR EFFECTIVE RATE OF 21.5599 PERCENT -- ENDORSED BY CONGRESS -- IS NOT DISTURBED. INCLUSION OF NAPMO ADMINISTRATIVE COSTS (DOLS 39 MILLION) IN THE CIVIL BUDGET IS NOT POSSIBLE FOR THE IMMEDIATE FUTURE AS CIVIL BUDGET IS FUNDED BY THE STATE DEPARTMENT AND OUR FY 1978 BUDGET HAS ALREADY BEEN SUBMITTED. MOREOVER, IT WOULD BE INAPPROPRIATE TO INCLUDE SUCH COSTS IN A BUDGET FUNDED BY STATE, AND WE THEREFORE DO NOT CONSIDER THIS A VIABLE ALTERNATIVE. INCLUDING NAPMO COSTS IN MILITARY BUDGET WOULD HOWEVER APPEAR APPROPRIATE.

C. CONCERNING PARA 5(F), CONCUR THAT FURTHER REDUCTIONS SHOULD BE SOUGHT IN INDUSTRIAL COLLABORATION, AND THAT FORCE CAPABILITY SHOULD BE DISTURBED AS LITTLE AS POSSIBLE HOWEVER, IN VIEW OF SEVERAL NATIONS' REITERATED SUPPORT FOR 27 AIRCRAFT, FORCE SIZE ADJUSTMENT SHOULD BE THE LAST OPTION ADDRESSED. (IN THIS CONNECTION WE NOTE PARA 3(D) REFTEL). ON THE OTHER HAND, MORE FLEXIBLE CON-

FIGURATION OPTIONS ARE BEING PURSUED BY TECHNICAL REPRESENTATIVES THAT SHOULD PRESERVE CONFIGURATION REQUIREMENTS WHILE REDUCING COSTS. SHOULD DOLS 150

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MILLION TO DOLS 200 MILLION ADDITIONAL NEAR-TERM SAVINGS BE AVAILABLE BY THIS COMBINED APPROACH, FINANCIAL CONSENSUS MAY BE POSSIBLE WITHOUT FURTHER ADJUSTMENT TO NATIONAL SHARES.

5. OTHER NATIONAL VIEWS, WHICH POSTULATE SIGNIFICANT ECONOMIC ADVANTAGE TO THE U.S. FROM MANUFACTURE OF MAJOR PORTIONS OF THE AIRCRAFT SYSTEM, DISCOUNT THREE MAJOR FACTORS:

A. THE DRAFT U.S. PROPOSAL TO NATO ALREADY WAIVES  
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RECOUPMENT OF MUCH OF OUR INITIAL INVESTMENT IN THE AWACS SYSTEM; THUS OUR EFFECTIVE SHARE IS ALREADY WELL ABOVE THAT ORIGINALLY DEFINED.

B. THE MAJOR PART OF ANNUAL OPERATING COSTS WILL BE SPENT IN EUROPE, THEREBY ROUGHLY EQUALLING ACQUISITION COSTS -- AND RETURNING EQUAL BENEFITS TO EUROPEAN ECONOMIES -- OVER THE SYSTEM'S LIFE CYCLE.

C. THIS PROGRAM IS THE MOST EFFECTIVE, NEAR-TERM SOLUTION TO AN URGENT MILITARY REQUIREMENT OF THE ALLIANCE AS A WHOLE. THE U.S. SUPPORTS IT, BUT SHOULD NOT BE EXPECTED THEREBY TO PAY MORE THAN A FAIR SHARE.

6. CONTINUED SUPPORT FOR THE NATO AEW AND C PROGRAM BY THE NEW ADMINISTRATION AND IN THE CONGRESS WILL DEPEND IN PART UPON OUR COLLECTIVE ABILITY TO RESOLVE NATIONAL DIFFERENCES AND TO DEMONSTRATE EQUITABLE PARTICIPATION WITHIN THE ALLIANCE. WE APPRECIATE THE MAGNITUDE OF ASYG LABERGE'S TASK, ARE GRATEFUL FOR HIS MEDIATING EFFORTS TO DATE, AND WOULD WELCOME HIS FURTHER INITIATIVES.

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## Message Attributes

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